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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other Than Pensions"	)	CC Docket 92-101
	)	
Bell Atlantic Tariff F.C.C. No.1	)	Transmittal No. 497
	)	
US West Communications, Inc. Tariff F.C.C. No.1 and 4	)	Transmittal No. 246
	)	
Pacific Bell Tariff F.C.C. No. 128	)	Transmittal No. 1579

GTE's DIRECT CASE

GTE Service Corporation and
its affiliated domestic
telephone operating companies

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June 1, 1992

Their Attorneys

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SUMMARY

Under the rules adopted by the Commission, the SFAS-106 accounting changes qualify for exogenous treatment at the point when they are no longer under control of the carrier and FCC approval of the change has been issued. These conditions apply here because:

(1) The issuance of SFAS-106 constitutes administrative action beyond the control of the carriers.

(2) The Godwins study demonstrates that the adoption of SFAS-106 will have a small impact on the GNP-PI used for price caps purposes. This impact is taken into account by Bell Atlantic, U S West, and Pacific Bell, and will be taken into account by GTE in its forthcoming tariff filing, so that no double counting will result.

(3) The Godwins study shows there will be a disproportionate impact of SFAS-106 on price cap exchange carriers compared to employers generally. Specifically, it demonstrates that only about 28.3 percent of the cost burden of SFAS-106 experienced by the average price cap exchange carrier will be experienced by the average United States company. This follows from the fact that 73.2 percent of employees work for companies that do not provide retiree medical benefits, while all the price cap exchange carriers provide such benefits. GTE concurs in the results of the Godwins study showing that 84.8 percent of the costs resulting from SFAS-106 implementation will uniquely and disproportionately affect exchange carriers as a

class, if not individually, and therefore would not be recovered through the GNP-PI and should be treated exogenously.

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GTE's DIRECT CASE

GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE") hereby submit their Direct Case with regard to the various issues designated for investigation by the Commission's Order of Investigation and Suspension (the "Order"), DA 92-540 released April 30, 1992, by the Chief, Common Carrier Bureau, together with the captioned transmittals of Bell Atlantic Telephone Company ("Bell Atlantic"), U S West Communications, Inc. ("U S West"), and Pacific Bell.

BACKGROUND

The Chief, Common Carrier Bureau, has concluded that the adoption for accounting purposes of Statement of Financial Accounting Standards-106 ("SFAS-106"), entitled Employers

Accounting for Postretirement Benefits Other Than Pensions, "will not conflict with the Commission's regulatory objectives"; and authorized the implementation of SFAS-106 on or before January 1, 1993. Southwestern Bell/GTE Service Corporation, 6 FCC Rcd 7560 (1991).

Bell Atlantic (at 1-8) "requests exogenous treatment for the costs of SFAS 106 for the period of January 1, 1991 through June 30, 1993." As explained by Bell Atlantic (at 1-3 and 1-4)[1]:

> Under SFAS 106, a postretirement benefit plan is considered a form of deferred compensation arrangement, whereby an employer promises to exchange future benefits for employees' current services. The obligation to provide benefits arises as employees render the services necessary to earn the benefits . . . . Adoption of SFAS 106 requires Bell Atlantic to recognize other postretirement benefit costs when they are actually incurred, so that costs are being assigned to the ratepayers who benefitted from the services rendered.

U S West makes a similar request. It asks for approval (at 1-5) of its "propos[al] to treat the incremental costs associated with SFAS No. 106 as an exogenous cost" under the price cap plan. And Pacific Bell's Description and Justification (at 1) "proposes to revise its price cap indices and rates to incorporate the incremental effects of its adoption of SFAS 106."

Bell Atlantic (at 1-4) seeks exogenous treatment of the accounting change under the Commission's price cap plan for several reasons, including the fact that adoption of SFAS-106 is outside the carriers' control, and the incremental costs resulting from its adoption "were not reflected in Bell

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1 Bell Atlantic cited SFAS-106, page 1, paragraph 3.

Atlantic's base period costs or Price Cap Indices." U S West (at 1-5 to 1-7) and Pacific Bell (at 2-5) cite similar reasons.

In support of their transmittals, Bell Atlantic and U S West submitted an econometric study ("the Godwins study") dated in February 1992 and prepared by Godwins, Inc. for the United States Telephone Association ("USTA") entitled "Analysis of Impact of FAS-106 Costs on GNP-PI."

DISCUSSION

1. Responding to paragraph 10 of the Order, GTE maintains the burden has been carried of demonstrating that implementing SFAS-106 results in an exogenous cost change for exchange carriers under price caps.

Paragraph 10 of the Order designates the following as issue "I" for investigation:

> Have the LECs borne their burden of demonstrating that implementing SFAS-106 results in an exogenous cost change under the Commission's price caps rules?

The Commission defines exogenous costs as "those costs that are triggered by administrative, legislative or judicial action beyond the control of the carriers."[2] Local exchange carriers ("exchange carriers" or "LECs") were not authorized to adjust their price caps automatically to reflect changes in Generally Accepted Accounting Principles ("GAAP"); notification of intent to apply a change in GAAP and FCC approval is required. Nonetheless, GAAP changes approved by the Financial Accounting

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[2] Policy & Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Second Report and Order ("Second Report & Order"), 5 FCC Rcd 6786, 6807 (1990) (subsequent citations omitted).

Standards Board were among the events specifically mentioned by the Commission in the context of exogenous treatment.[3] And Commission approval was duly issued. Southwestern Bell/GTE Service Corporation, supra.

Exogenous treatment is justified because:

(1) The issuance of SFAS-106 constitutes "administrative . . . action beyond the control of the carriers" within the meaning of the Second Report & Order, 5 FCC Rcd at 6807.

(2) As indicated by an FCC decision in 1990,[4] the SFAS-106 accounting changes qualify for exogenous treatment at the point when they are no longer under control of the carrier and FCC approval of the change has been issued. "[E]xogenous costs can be . . . cost changes resulting from . . . any Commission-approved change in GAAP."[5]

(3) The Godwins study, which evaluates the impact of SFAS-106 in actuarial and macroeconomic terms, demonstrates that the adoption of SFAS-106 will have a small impact on the GNP-PI used for price caps purposes. Bell Atlantic (at 1-7), U S West (at 1-9) and Pacific Bell (at 4-5) have taken this impact into account in their proposed index adjustments so that no double counting

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3 Id.

4 AT&T, Transmittal No. 2304, 5 FCC Rcd 3680 (1990) (Chief, Common Carrier Bureau). "[T]he accounting change AT&T seeks to claim as exogenous will probably be mandated by FASB [Financial Standards Accounting Board] in 1992, and at that time qualify for exogenous treatment." Id.

5 Id. at paragraph 4.

will result. Similarly, GTE's exogenous adjustment for SFAS-106, which is to be reflected in its forthcoming tariff filing, will assure no double counting.

(4) The Godwins study further demonstrates that only about 28.3 percent of the cost burden of SFAS-106 experienced by the average price cap exchange carrier[6] will be experienced by the average United States company. This follows from the fact that 73.2 percent of employees work for companies that do not provide retiree medical benefits, while all the price cap exchange carriers provide such benefits. This indicates there will be a disproportionate impact of SFAS-106 on price cap exchange carriers compared to employers generally. In the context of tax law changes, the Commission recognized that exogenous treatment is appropriate for "changes imposed by any level of government that uniquely or disproportionately affect LECs individually or as a class . . . ."[7] GTE participated -- along with Bell Atlantic, US West, and other price cap carriers -- in the Godwins study and concurs in its results showing that 84.8 percent of the costs resulting from SFAS-106 implementation will uniquely and disproportionately affect exchange carriers as a class, if not individually; therefore would not be recovered through the GNP-PI and should be treated exogenously.

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6 For study purposes, the price cap exchange carriers were the BOCs, GTE, Southern New England Tel. Co., Rochester Tel. Co., and the United (now Sprint) companies.

7 Second Report & Order, 5 FCC Rcd at 6808. See Bell Atlantic Tel. Cos., Transmittal No. 473, 7 FCC Rcd 1486, 1487 (1992) (Deputy Chief (Policy), Common Carrier Bureau).

Finally, GTE stresses that in its view SFAS-106 reflects proper accrual accounting methodologies that should be used for ratemaking. Nonpension postretirement benefit costs are standard costs of doing business. Compliance with SFAS-106 is consistent with GAAP in matching the service rendered and the associated costs; and, by avoiding inappropriate shifts of an increasing burden of costs to future time periods, it results in a more equitable distribution of cost burdens among generations.

Accordingly: Inasmuch as the specified burden has been carried, the Commission should grant exogenous treatment of costs resulting from SFAS-106 implementation to the three requesting BOCs and other exchange carriers, including GTE, requesting such treatment. This treatment is justified under the standards recognized and applied by the Commission.

2. Further responding to paragraph 10 of the Order, GTE answers the FCC's four questions in the affirmative.

Paragraph 10 of the Order designates the following as issue "II" for investigation:

> If these cost changes are treated as exogenous,
>
> (a) Should costs associated with implementation of SFAS-106 prior to January 1, 1993 (when the accounting change becomes mandatory) be treated as exogenous?
>
> (b) Are the assumptions made by the individual LECs in calculating these costs reasonable?
>
> (c) Given these assumptions, have the individual LECs correctly computed the exogenous cost changes?
>
> (d) Are the individual LEC allocations of these costs among the price cap baskets consistent with the Commission's rules?

With regard to pre-1993 costs, these should be treated as exogenous as of the effective date of SFAS-106 implementation. GTE is not in a position to comment on the assumptions, calculations and allocations made by Bell Atlantic, U S West and Pacific Bell. Insofar as the information submitted *infra* by GTE is concerned, GTE answers all three questions (b) through (d) in the affirmative.

3. Responding to paragraph 11 of the Order, the required data for GTE is furnished.

Paragraph 11 of the Order calls for each exchange carrier to provide as part of its direct case information it believes sufficient to bear its burden of proof, *i.e.*, "to show that the increase in its price cap index levels or its rates is just and reasonable." At a minimum, the exchange carrier is to provide the information underscored as part of the following:

(1) The date the LEC has implemented or intends to implement SFAS-106.

GTE Response: As stated in GTE's Notice of Intent, GTE is proceeding to adopt SFAS-106 effective not later than January 1, 1993. The precise date has not yet been determined.

(2) The costs by year.

GTE Response: GTE has not yet filed its interstate tariffs implementing SFAS-106. GTE's incremental interstate cost of SFAS-106 for 1993 is estimated at $65.0 million, which represents approximately 2.3 percent of GTE's interstate revenues.

(3) <u>The allocation of costs to baskets by year.</u>

GTE Response: The allocation of costs by basket is detailed in Attachment I.

(4) <u>The treatment of these costs in reports to the Securities and Exchange Commission (SEC) and to shareholders, including specific citations to, or excerpted materials from, such reports.</u>

GTE Response: The annual reports for each of the GTE legal entities contain a reference to SFAS-106 in the footnote section addressing retirement plans. An example is included in Attachment II. In addition, the most recent 10-K filing with the Securities and Exchange Commission contains a complete copy of the annual report. There is no additional verbiage related to SFAS-106 in the 10-K filing. The financial statements for the former Contel legal entities contain a reference to SFAS-106 in the footnote section. An example is included in Attachment III.

(5) <u>All studies on which the LEC seeks to rely in its demonstration that these accounting changes should be considered exogenous cost changes, including all studies demonstrating that the change is not reflected in the current price cap formulas, factors for inflation, productivity, allowed exogenous changes, initial price cap rates, and the sharing and low-end formula adjustment mechanisms.</u>

GTE Response: GTE actively participated in support of the United States Telephone Association "Analysis of Impact of FAS 106 on GNP-PI" performed by Godwins. GTE will rely upon this study. Godwins was retained by the USTA for the purpose of determining what percentage of the additional costs incurred by local exchange carriers subject to Federal Price Cap regulations as a result of SFAS-106 would be reflected in the GNP Price Index ("GNP-PI") and what percentage would not. Godwins found that the increase in GNP-PI caused by SFAS-106 will provide for recovery of 0.7% of the additional cost incurred by Price Cap LECs. Also, Godwins determined that an additional 14.5% would be recovered through a reduction in wage rates (discussed in response to paragraph 15 _infra_). _See_ Godwins study Section I page 1. USTA members and Godwins met with FCC staff members on December 4, 1991 and on January 10, 1992 to discuss the details and the progress of the study and solicit comments.

4. Responding to paragraphs 12 and 13 of the Order, the required data for GTE is furnished.

Paragraphs 12 and 13 of the Order calls for each exchange carrier to provide as part of its direct case the information underscored as part of the following:

(1) _Each of the type of benefits being provided that is covered by the SFAS-106 accounting rules._

GTE Response: GTE provides its retirees medical and life insurance benefits. The level of benefits varies by jurisdiction and age group.

(2) _For 1991 and 1992, the pay-as-you-go level of expense associated with these benefits._

GTE Response: The 1991 pay-as you-go level of total unseparated expense for GTE is $14.4 million. The estimated level for 1992 is $18.8 million.

(3) _Any Voluntary Employee Benefit Association (VEBA) trusts or other funding mechanisms for these expenses which were established prior to the adoption of SFAS-106._

GTE Response: The Voluntary Employee Benefit Association ("VEBA") trusts maintained by GTE are detailed on Attachment IV.

(4) The forms of postretirement benefit accrual accounting, if any, that were adopted within the regulated financial reporting before the adoption of price cap regulation.

GTE Response: GTE currently accounts for postretirement benefits on a cash basis as the costs are paid (pay-as-you-go). No form of postretirement benefit accrual accounting exists. Former Contel entities recognize life insurance benefits in the year paid by expensing the annual life insurance premiums. Contel also adopted accrual accounting for health care costs, beginning in 1987, which equates to a partial recognition of additional cost defined by SFAS-106.

(5) What type and level of SFAS-106-type expense is reflected in current rates.

(6) What type and level of SFAS-106-type expense was reflected in the starting rates for price caps?

GTE Response: GTE's current interstate access rates do not reflect any SFAS-106-type expense. However, the starting interstate access rates of former Contel companies were based on partial accrual accounting adopted by Contel in 1987. Contel's starting access rates reflected $12 million of expense representing partial recognition of SFAS-106.

5. **Responding to paragraph 14 of the Order, the required data for GTE is furnished.**

Paragraphs 14 of the Order calls for each exchange carrier to provide as part of its direct case "descriptions and justifications of the actuarial assumptions, and the assumptions unique to postretirement health care benefits, made in computing the SFAS-106 expenses."

GTE Response: The key actuarial assumptions used by GTE in the calculations of OPEB costs were as follows:

- 8.0% interest discount rate
- 8.0% expected return on plan assets
- Annual medical plan claims costs which were varied based on age future increase in annual medical plan claims costs "graded" by year and age group:
  - Pre-65 15% in 1991 grading down to 6% in 2000 and thereafter
  - Post-65 10% between 1991-1993 grading down to 6% in 1997 and thereafter
- Annual pay increase of 6% per year
- Rates of retirement at different ages based on historical experience
- Rates of termination prior to retirement based on historical experience
- Rates of mortality based upon the most recent Group Annuity Mortality Table, which is consistent with GTE experience.

These assumptions can be grouped into three different types: demographic assumptions, economic assumptions and claims cost assumptions. Each will be discussed separately below.

The demographic assumptions with respect to rates of retirement, termination and mortality were adopted by GTE based upon recommendations of its actuary -- TPF&C. The most recent experience study showed that actual experience over the study period very closely followed that predicted by the demographic assumptions; accordingly, the Company continued to use them without change. To the extent that future studies reveal a change in the pattern of experience, revisions to these assumptions will be made as deemed appropriate.

There are four economic assumptions: the interest discount rate, the expected rate of return on plan assets, the salary increase assumption and the health care cost trend rate.

The interest discount rate under both SFAS-106, along with the Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions), is evaluated each year to reflect prevailing interest rates on long-term high quality fixed income investments. The expected rate of return on plan assets and the salary increase assumptions reflect GTE's best estimate of long term future experience with respect to each of these assumptions. These assumptions are reasonable when viewed in the light of current economic conditions and appropriate in the context of the guidelines set forth in Paragraphs 31 and 32 of SFAS-106 for the selections of these two rate assumptions. As a point of reference, at the end of March 1992, the yield on 30 year U.S. Treasury bonds was 7.96%.

The health care cost trend rate assumption is graded by calendar year. The short term trend rate assumption was selected to reflect actual trend rate experience over the most recent years (1989-1990) and that expected over the next few years (1991-1993). The ultimate long run trend rate assumption was selected to be consistent with the corresponding best estimates of future return on assets and salary increase assumptions.

The final important assumption is the medical claims cost assumption. The claims cost assumption for 1991 was adopted by GTE based upon the recommendation of its actuary. This assumption was developed by TPF&C by evaluating actual GTE experience by region for the years 1988-1990, and projecting these experience results to 1991 to reflect the medical trend. The resulting assumption is intended to represent the best estimate of per capita retiree claims costs for 1991. In this process, the greatest weight was given to the most recent years' experience, for which the most reliable information is available.

It is worth noting that, as in the case of annually determining pension expense, the experience with respect to retiree medical and life benefits will be monitored annually as each year's SFAS-106 actuarial study is prepared. As with pensions, the assumptions used will be adjusted as appropriate to reflect emerging experience.

The above-mentioned assumptions are consistent with historical GTE experience. In particular, the annual per capita claims cost assumption for postretirement health care benefits for each region of the GTE Telephone Operations Group has been established by examining the actual claims cost experience over the most recent years.

6. **Responding to paragraph 15 of the Order, the required data for GTE is furnished.**

Paragraphs 15 of the Order calls for each exchange carrier to provide as part of its direct case "information on what adjustment, if any, should be made in the exogenous adjustment to avoid any double counting."

GTE Response: GTE concurs with the following statement taken from a letter written by Peter Neuwirth of Godwins to Frank McKennedy of USTA (see Attachment V).

> As is pointed out in the paragraph, a Price Cap LEC which seeks an exogenous adjustment equal to the entire increase in its costs due to SFAS 106 runs the risk of "double counting" because the increases in all companies' costs due to SFAS 106 will to some degree already be reflected in the growth of the GNP-PI. In fact, the proportion of the average Price Cap LEC's cost increases due to SFAS 106 that is not reflected in the growth in GNP-PI is precisely what the Godwins study attempts to determine. As shown in item C on page 2 of the Godwins report, only 0.7% of the average Price Cap LEC's cost increase due to SFAS 106 will be reflected in the growth in the GNP-PI. The factors which cause far less than 100% of SFAS 106 costs to be reflected are described on pages 7 - 11 of the report, while the detailed derivation of the 0.7% is described in Section III, pages 12 - 31 of the report.

With regard to what if any change in wages will be reflected in the GNP-PI, GTE supports the conclusions reached by Godwins. In their Macroeconomic Analysis, Godwins found that the national wage rate would eventually be 0.93% lower than it would have been in the absence of SFAS-106. Godwins concluded that if "TELCO" was able to benefit from a similar reduction in its wage rate, such a reduction would recover an additional 14.5% of "TELCO's" direct SFAS-106 costs. See Godwins Study section II page 11. GTE accepts this conclusion and will not seek exogenous recovery on 14.5% of its SFAS-106 incremental costs because of the expected national wage rate reduction.

7. **Responding to paragraph 16 of the Order, GTE concurs with the concurrent USTA filing.**

Paragraphs 16 of the Order asks for a full description of the Godwins study. GTE concurs with the description contained in the concurrent filing of the USTA and has included the Godwins response to paragraph 16 as Attachment VI.

Respectfully submitted,

GTE Service Corporation and
its affiliated domestic
telephone operating companies

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June 1, 1992

Their Attorneys

ATTACHMENT I

GTE
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB)
1993 ALLOCATED COSTS
REVENUE EFFECT

COMMON LINE	$ 37 million
TRAFFIC SENSITIVE	$ 22 million
SPECIAL ACCESS	$ 6 million
INTEREXCHANGE	$ 0
TOTAL REVENUE EFFECT	$ 65 million

7. Retirement Plans

The Company has trusteed, noncontributory, defined benefit pension plans covering substantially all employees. The benefits to be paid under these plans are generally based on years of credited service and average final earnings. The Company's funding policy, subject to the minimum funding requirements of U.S. employee benefit and tax laws, is to contribute such amounts as are determined on an actuarial basis to provide the plans with assets sufficient to meet the benefit obligations of the plans. The assets of the plans consist primarily of corporate equities, government securities and fixed income investments.

The pension credits for 1991-1989 include the following components:

	1991	1990	1989
		(Thousands of Dollars)	
Service cost-benefits earned during the period	$ 48,695	$ 49,218	$ 41,190
Interest cost on projected benefit obligations	101,105	93,311	79,393
Actual return on plan assets	(449,553)	52,230	(364,217)
Other - net	249,268	(225,988)	227,312
Net pension credit	$ (50,485)	$ (31,229)	$ (16,322)

Assumptions used to develop the pension credits were as follows:

	1991	1990	1989
Discount rate	8.0%	8.0%	7.5%
Rate of salary progression	6.0%	6.0%	6.0%
Expected long-term rate of return on plan assets	8.0%	8.0%	7.5%

The funded status of the plans at December 31, 1991 and 1990 was as follows:

	1991	1990
	(Thousands of Dollars)	
Plan assets at fair value	$ 2,531,002	$ 2,113,526
Projected benefit obligation	1,353,678	1,254,491
Excess of assets over projected obligation	1,177,324	859,035
Unrecognized net transition asset	(304,897)	(362,752)
Unrecognized net gain	(668,408)	(395,392)
Prepaid pension cost	$ 204,019	$ 100,891

The projected benefit obligations at December 31, 1991 and 1990 include accumulated benefit obligations of $931.8 million and $859.1 million and vested benefit obligations of $808.0 million and $750.6 million, respectively.

The Company generally provides health care and life insurance benefits to retirees. Benefits for eligible retirees are expensed as paid and amounted to $13.9 million, $13.1 million and $9.5 million for 1991-1989, respectively. In December 1990, the Financial Accounting Standards Board issued Statement No. 106 entitled "Employers' Accounting for Postretirement Benefits Other Than Pensions" which is required to be implemented by January 1, 1993. The new standard requires that the expected costs of these benefits be charged to expense during the years that the employees render service. At December 31, 1991, the estimated unrecorded accumulated postretirement benefit obligation amounted to $448.4 million.

The Company expects that the annual postretirement benefit expense computed in accordance with the new standard will be significantly greater than the current expense. However, the Company has not yet determined the effect that adoption of the new standard will have on its results of operations because the amount depends to a large extent on the Company's ability to recover the increased costs in its rates and tariffs which requires approval of regulators.

6. **Retirement Plans**

The Company participates in the Parent Company's trusteed pension plan (the Plan), which covers substantially all employees. The benefits are based on an employee's years of service and average earnings for the five highest consecutive calendar years preceding retirement. The Company's policy is to fund pension cost in accordance with applicable regulations. Total pension costs for 1991 and 1990 were $3.1 million and $4.4 million, respectively.

The net assets available for benefits are maintained for the total Plan, but not by subsidiary. The Plan's net assets available for benefits exceeded projected benefit obligations as computed under SFAS No. 87 "Employers' Accounting for Pensions" as of the last valuation made by an actuary.

In June 1990, the Parent Company announced an early retirement option to certain management and nonmanagement employees. The option included an amendment to the Plan to incorporate a pension benefit calculation as of December 31, 1990, that adds an additional three years to both an employee's age and years of service. The early retirement option was accounted for as a termination benefit and accordingly, the Company's operating expenses for 1990 includes a one-time charge of $1.8 million. In addition, $1.3 million was expensed in 1990 to reflect the Company's obligation for supplemental benefits which will not be provided through the trusteed pension plan.

The Company participates in a plan administered by the Parent Company which provides certain health care and life insurance benefits for substantially all retired employees. The costs of providing these benefits were approximately $1.6 million and $1.2 million for 1991 and 1990, respectively. Life insurance benefits for retirees are provided through an insurance company whose premiums are based on the claims experience of the participants. The Company recognizes the cost of providing these benefits in the year paid by expensing the annual life insurance premiums. Health care benefits for retirees are provided through an employee benefit trust. Prior to 1987, the cost of these health care benefits was expensed when paid. Beginning in 1987, the costs for active employees are accrued over their estimated service periods.

In December 1990, the Financial Accounting Standards Board issued Statement No. 106 entitled "Employers' Accounting for Postretirement Benefits Other Than Pensions" which is required to be implemented by January 1, 1993. The new standard requires that the expected costs of these benefits be charged to expense during the years that the employees render service. At December 31, 1991, the estimated unrecorded accumulated postretirement benefit obligation amounted to $35.6 million.

The Company expects that the annual postretirement benefit expense computed in accordance with the new standard will be greater than the current expense. However, the Company has not yet determined the effect that adoption of the new standard will have on its results of operations because the amount depends to a large extent on the Company's ability to recover the increased costs in its rates and tariffs which requires approval of regulators.

7. Construction Program and Leases

The Company's construction budget for 1992 is estimated to be $75.0 million, for which the Company had substantial purchase commitments as of December 31, 1991.

The Company has noncancelable lease contracts covering certain buildings, office space and equipment. The lease contracts contain varying renewal options for terms up to 20 years.

Minimum rental commitments for noncancelable leases for periods subsequent to December 31, 1991 are as follows (in thousands of dollars):

1992	$ 577
1993	435
1994	333
1995	268
1996	263
Thereafter	7,155
Total minimum rental commitments	$ 9,031

The total amounts of rents charged to expense were $3.5 million and $3.4 million for the years 1991 and 1990, respectively.

Godwins

May 14, 1992

Mr. Frank McKennedy
Director, Separations & Access
United States Telephone Assn.
900-19 St. N. W. - Suite 800
Washington, D. C. 20006-2105

Dear Mr. McKennedy:

Re: Paragraph 15 of FCC Order of Investigation and Suspension
CC Docket No. 92 - 101

The purpose of this letter is to respond to the request for information outlined in the above paragraph. Paragraph 15 of the order requests "information on what adjustment, if any, should be made in the exogenous adjustment to avoid double counting." As is pointed out in the paragraph, a Price Cap LEC which seeks an exogenous adjustment equal to the entire increase in its costs due to SFAS 106 runs the risk of "double counting" because the increases in all companies' costs due to SFAS 106 will to some degree already be reflected in the growth of the GNP-PI. In fact, the proportion of the average Price Cap LEC's cost increases due to SFAS 106 that is not reflected in the growth in GNP-PI is precisely what the Godwins study attempts to determine. As shown in item C on page 2 of the Godwins report, only 0.7% of the average Price Cap LEC's cost increase due to SFAS 106 will be reflected in the growth in the GNP-PI. The factors which cause far less than 100% of SFAS 106 costs to be reflected are described on pages 7 - 11 of the report, while the detailed derivation of the 0.7% is described in Section III, pages 12 - 31 of the report.

Please give me a call if you have any questions.

Sincerely,

Peter J. Neuwirth, F.S.A.
Regional Director

PJN:mk\D304

cc: Andrew Abel

Godwins Inc.
549 Pleasantville Road, North Building
Briarcliff Manor, New York 10510

(914) 747-2002
FAX (914) 742-3215
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Response to Paragraph 16

of FCC Order of Investigation and Suspension

CC Docket No. 92 - 101

May 26, 1992

Godwins